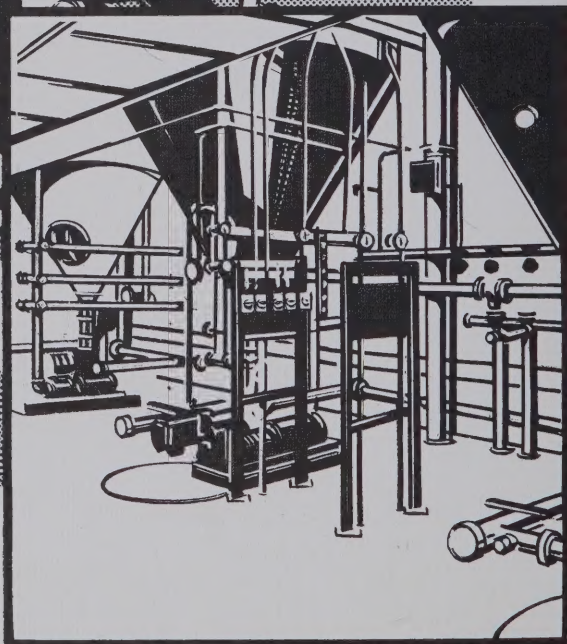


R O B.

Photo Engravers & Electrotypers Limited

1980 Annual Report



Top Left: Solvent Recovery System—80% of solvent vapours formerly exhausted to atmosphere, reused in ink.

Centre: View of first half of our new 10-unit Motter Gravure Press; paper web speed to 2,000 ft./min.

Bottom Right: View of one of 10 units in our bulk ink storage facility; ink is piped and metered to individual press units.

Photo Engravers & Electrotypers Limited

Directors and Officers

J. R. SHAW, *President*

JAMES M. TORY, Q.C.,
Vice-President

ALEX CAMPBELL

JOHN S. DINNICK

GORDON R. GILLIES

DOUGLAS J. PEACHER

M. J. STEEVES, P.Eng.,
Vice-President, Manufacturing

D. S. PORTER, C.A.,
*Vice-President, Finance &
Secretary-Treasurer*

AUDITORS, *Clarkson Gordon*

SOLICITORS, *Tory, Tory,
DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT,
National Trust Company, Limited

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT,
*2250 Islington Ave.,
Rexdale, Ontario M9W 3W4*

Photo Engravers & Electrotypers Limited

Financial Highlights

| | 1980 | 1979 |
|-------------------------------|--------------|--------------|
| Earnings | | |
| Sales..... | \$24,764,749 | \$21,112,226 |
| Depreciation..... | 1,453,385 | 795,156 |
| Income taxes..... | 1,040,000 | 853,000 |
| Net earnings..... | 1,443,045 | 1,240,965 |
| Net earnings per share..... | 7.57 | 6.51 |
| Dividends paid..... | 591,015 | 505,222 |
| Dividends paid per share..... | 3.10 | 2.65 |

Balance Sheet

| | | |
|-------------------------------------|--------------|--------------|
| Additions to fixed assets..... | \$ 2,617,058 | \$ 7,956,592 |
| Shareholders' equity..... | 9,123,572 | 8,271,542 |
| Shareholders' equity per share..... | 47.86 | 43.39 |

Directors' Report

Your directors are pleased to submit the annual report of the Company for 1980, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS

Our new printing press started production during March 1980 so that, in 1980, sales amounted to \$24,764,749 compared with \$21,112,226 in 1979. After meeting all charges, including a provision of \$1,453,385 for depreciation of plant and equipment, and a provision of \$1,040,000 for income taxes, there remained earnings of \$1,443,045 or \$7.57 per share compared with \$1,240,965 or \$6.51 per share for the previous year.

DIVIDENDS

A quarterly dividend of 70 cents per share was paid March 1, 1980 while quarterly dividends of 80 cents per share were paid June 1, September 1 and December 1, 1980, making a total distribution to shareholders of \$3.10 per share or \$591,015 for the year compared with a total payment of \$2.65 per share or \$505,222 in 1979. Your directors declared a dividend of 80 cents per share for the first quarter of 1981. The Company has made uninterrupted dividend payments since 1934.

PLANT EXPANSION AND FINANCING ARRANGEMENTS

Our expansion programme for the purchase of the additional printing press equipment and an extension to the present building was completed during the year at a cost of \$12,250,000 plus interest on funds borrowed.

Your directors have approved the purchase of a Helio Klischograph. This machine provides an electronic means of mechanically engraving a rotogravure printing cylinder. This engraving equipment programme is estimated to cost approximately \$1,200,000 and is expected to be in operation by mid-1981.

EARNINGS EMPLOYED IN THE BUSINESS

As at December 31, 1980 earnings employed in the business amounted to \$7,929,843 compared to \$7,077,813 last year.

SHAREHOLDERS' EQUITY

Total shareholders' equity amounted to \$9,123,572 equal to \$47.86 per share, compared with \$8,271,542 or \$43.39 per share a year ago.

SUBDIVISION OF SHARES

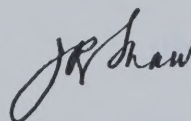
In order to facilitate a wider ownership of the Company's shares and thereby make the stock more marketable, your directors consider it advisable to subdivide each of the Company's issued and outstanding shares into four shares.

Accordingly, your directors are recommending to the shareholders that the outstanding common shares of the Company be subdivided on a four for one basis. At the Annual and Special Meeting of shareholders of the Company to be held on April 1, 1981 a special resolution amending the Articles of the Company to effect this subdivision will be submitted to the shareholders. If approved by the shareholders the subdivision will be effective on or before April 15, 1981.

Your directors further intend that, should the subdivision of the outstanding common shares be approved, the dividend policy for the subdivided shares be at the rate of 25 cents per share per quarter being equivalent to an annual rate of \$4.00 per share prior to the subdivision of the shares. If approved, the new dividend policy would commence June 1, 1981.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,



President.

Toronto, Canada
January 30, 1981.

Photo Engravers & Electrotypers Limited

(Continued under the Canada Business Corporations Act)

Balance Sheet

December 31, 1980

(with comparative figures for 1979)

| ASSETS | | 1980 | 1979 |
|--|----|---------------------|---------------------|
| Current : | | | |
| Cash | \$ | 39,215 | \$ 39,457 |
| Accounts receivable | | 571,718 | 350,086 |
| Income taxes recoverable | | 176,043 | 578,067 |
| Inventories (note 2) | | 2,841,077 | 1,973,626 |
| | | <u>3,628,053</u> | <u>2,941,236</u> |
| Fixed, at cost : | | | |
| Land and roadways | | 171,963 | 171,963 |
| Buildings | | 7,837,863 | 4,611,941 |
| Machinery and equipment | | 22,187,351 | 11,989,717 |
| | | <u>30,197,177</u> | <u>16,773,621</u> |
| Less accumulated depreciation | | 10,659,491 | 9,378,260 |
| | | <u>19,537,686</u> | <u>7,395,361</u> |
| Expansion programme in progress (note 3) | | | 10,176,667 |
| | | <u>19,537,686</u> | <u>17,572,028</u> |
| Notes due under Employees' Stock Purchase Plans (note 5) | | 209,440 | 249,936 |
| | | <u>\$23,375,179</u> | <u>\$20,763,200</u> |

On behalf of the Board :

J. R. SHAW, Director

J. M. TORY, Director

(See accompanying notes to financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1980 | 1979 |
|---|---------------------|---------------------|
| Current : | | |
| Operating bank loan | \$ 900,000 | |
| Accounts payable and accrued charges | 1,273,681 | \$ 1,096,237 |
| Accounts payable for expansion programme | 82,550 | 1,306,274 |
| Sales and withholding taxes payable | 499,076 | 380,875 |
| Term bank loan – current portion | 2,000,000 | |
| | <u>4,755,307</u> | <u>2,783,386</u> |
| Term bank loans less current portion (note 3) | 5,462,300 | 6,616,272 |
| Deferred income taxes | 4,034,000 | 3,092,000 |
| | <u>14,251,607</u> | <u>12,491,658</u> |
| Shareholders' equity : | | |
| Capital stock – | | |
| Authorized : | | |
| Common shares, without nominal or par value | | |
| Issued : | | |
| 190,650 shares | 1,193,729 | 1,193,729 |
| Earnings employed in the business | 7,929,843 | 7,077,813 |
| | <u>9,123,572</u> | <u>8,271,542</u> |
| | <u>\$23,375,179</u> | <u>\$20,763,200</u> |

Auditors' Report

To the Shareholders of
Photo Engravers & Electrotypers Limited :

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1980 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 16, 1981.

CLARKSON GORDON
Chartered Accountants

Photo Engravers & Electrotypers Limited

Statement of Earnings and Earnings Employed in the Business

Year Ended December 31, 1980

(with comparative figures for the year 1979)

| | 1980 | 1979 |
|---|---------------------|---------------------|
| Sales (note 7) | <u>\$24,764,749</u> | <u>\$21,112,226</u> |
| Cost of sales and all expenses, except the items noted below | <u>19,743,088</u> | <u>17,344,618</u> |
| Administrative and general expenses | 859,918 | 767,966 |
| Provision for depreciation | 1,453,385 | 795,156 |
| Amortization of deferred interest charges (note 4) | 48,077 | |
| Interest expense on current bank loan (note 4) | <u>177,236</u> | <u>110,521</u> |
| | <u>22,281,704</u> | <u>19,018,261</u> |
| Earnings before provision for income taxes | 2,483,045 | 2,093,965 |
| Provision for income taxes (note 8) | <u>1,040,000</u> | <u>853,000</u> |
| Earnings for the year* | 1,443,045 | 1,240,965 |
| Earnings employed in the business, beginning of year | <u>7,077,813</u> | <u>6,342,070</u> |
| | 8,520,858 | 7,583,035 |
| Less dividends paid (1980 — \$3.10 per share ; 1979 — \$2.65 per share) | <u>591,015</u> | <u>505,222</u> |
| Earnings employed in the business, end of year | <u>\$ 7,929,843</u> | <u>\$ 7,077,813</u> |
| *Earnings per share | <u>\$7.57</u> | <u>\$6.51</u> |

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Statement of Changes in Financial Position

Year ended December 31, 1980

(with comparative figures for the year 1979)

| | 1980 | 1979 |
|---|-----------------------------|--------------------------|
| Working capital was provided by: | | |
| Operations* | \$ 3,875,755 | \$ 2,921,174 |
| Proceeds from sale of fixed assets | 26,068 | 15,454 |
| Payment of notes due under Employees' Stock Purchase Plans | 40,497 | 41,222 |
| Increase in term bank loans | 846,028 | 5,624,862 |
| | <u>4,788,348</u> | <u>8,602,712</u> |
| Working capital was used for: | | |
| Additions to fixed assets (net of investment tax credits of \$98,434 in 1980; \$709,267 in 1979) | 2,617,058 | 7,956,592 |
| Reduction in term bank loans | 2,000,000 | |
| Deferred interest charges | 865,379 | |
| Dividends | 591,015 | 505,222 |
| | <u>6,073,452</u> | <u>8,461,814</u> |
| Increase (decrease) in working capital | (1,285,104) | 140,898 |
| Working capital, beginning of year | 157,850 | 16,952 |
| Working capital (deficiency), end of year | <u><u>\$(1,127,254)</u></u> | <u><u>\$ 157,850</u></u> |
| Changes in components of working capital: | | |
| Increase (decrease) in current assets – | | |
| Cash | \$ (242) | \$ 3,194 |
| Accounts receivable and other assets | 221,632 | (67,113) |
| Income taxes recoverable | (402,024) | 517,628 |
| Inventories | 867,451 | 690,090 |
| | <u>686,817</u> | <u>1,143,799</u> |
| Increase (decrease) in current liabilities – | | |
| Operating bank loan | 900,000 | |
| Accounts payable and accrued charges | 177,444 | 185,830 |
| Accounts payable for expansion programme | (1,223,724) | 840,039 |
| Sales and withholding taxes payable | 118,201 | (22,968) |
| Current portion of term bank loan | 2,000,000 | |
| | <u>1,971,921</u> | <u>1,002,901</u> |
| Increase (decrease) in working capital | <u><u>\$(1,285,104)</u></u> | <u><u>\$ 140,898</u></u> |

*Net earnings adjusted for charges or credits which do not affect working capital.

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Notes to Financial Statements

December 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Inventories –

Inventories of work in process are valued at the lower of cost, less progress advances received, and net realizable value. Other inventories are valued at the lower of cost, applied on a first-in, first-out basis, and market value determined on the basis of replacement cost.

Fixed assets –

Fixed assets are recorded at cost less the related investment tax credits. As well, interest charges on loans incurred to finance the major expansion programme are capitalized (see note 4).

Depreciation –

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½% for buildings and roadways and 6 %% for machinery and equipment, except certain designated electronic equipment which is depreciated at a rate of 20%.

Income taxes –

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

Classes of business –

The Company has only one class of business.

2. INVENTORIES

Inventories consist of the following:

| | 1980 | 1979 |
|---|--------------------|--------------------|
| Work in process (less progress advances of \$2,804,000 in 1980 and \$2,519,000 in 1979) | \$1,699,503 | \$1,536,900 |
| Other materials and supplies | 1,141,574 | 436,726 |
| | <u>\$2,841,077</u> | <u>\$1,973,626</u> |

3. TERM BANK LOANS

The term bank loans for the expansion programme, which was completed during the year, bear interest at varying rates not expected in aggregate to exceed the commercial bank prime rate by more than one percentage point and will be repaid over four years commencing in 1981 at approximately \$2,000,000 per year. These loans are evidenced by bankers' acceptances and demand notes and the Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the loans is outstanding.

4. INTEREST COSTS

Total interest charges in 1980 were \$1,202,765 (1979 – \$525,528) which are comprised of three amounts.

- The amount relating to the financing of the expansion programme prior to the start-up of production has been capitalized as part of the cost of the fixed assets.
- The interest incurred subsequent to March 1, 1980 (the start-up of production) and relating to the expansion programme has been deferred. This amount has been included with machinery and equipment and under the terms of a long-term contract is being amortized against income on a straight-line basis over the period to 1994.

- (c) The balance of the interest charges represents interest incurred for regular operations and has been expensed. The interest charges are summarized as follows:

| | 1980 | 1979 |
|---------------------------|--------------------|-------------------|
| Capitalized interest | \$ 160,150 | \$ 415,007 |
| Deferred interest charges | 865,379 | |
| Current interest expense | 177,236 | 110,521 |
| | <u>\$1,202,765</u> | <u>\$ 525,528</u> |

5. EMPLOYEES' STOCK PURCHASE PLANS

In prior years, officers and senior management, one of whom is a full-time salaried director, subscribed for and purchased shares of the Company under Employees' Stock Purchase Plans. The shares were issued at the current market price on the day prior to the subscription date. Consideration was received in the form of promissory notes which are non-interest bearing and are secured by a pledge of the purchased shares. The notes are due in equal annual instalments over ten years from the date of issue.

At December 31, 1980 the notes outstanding amounted to \$249,936 (\$290,433 in 1979) of which the portion due within one year (\$40,497 in 1980; \$40,497 in 1979) is included with current accounts receivable.

6. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income in 1980 (including amounts paid to the government pension plan) was \$291,600 (\$273,600 in 1979), which amounts included amortization of prior service costs. Based on an actuarial valuation as at December 31, 1977, the unfunded prior service pension costs at December 31, 1980 were estimated to total \$193,000 (\$205,000 in 1979) (approximately equal to the value of the unfunded vested benefits at that date) and these will be charged to operations on a straight-line basis over the next twelve years.

Photo Engravers & Electrotypers Limited

7. RELATED PARTY TRANSACTIONS

Approximately three-quarters of the Company's sales are made to Simpsons-Sears Limited, a major shareholder, pursuant to a long-term contract extending through 1983. These sales do not include the cost of paper which is supplied by Simpsons-Sears Limited. Included in accounts receivable are amounts due from Simpsons-Sears Limited aggregating \$364,869 as at December 31, 1980 (\$267,298 in 1979).

In addition, the Company reimbursed Simpsons-Sears Limited \$923,597 in 1980 (\$568,877 in 1979) for its portion of the cost of certain shared facilities and in turn

received \$456,252 (\$333,718 in 1979) from Simpsons-Sears Limited for the rental of warehouse space.

With respect to these transactions, there are amounts due to Simpsons-Sears Limited of \$24,888 (\$4,358 in 1979), included in accounts payable.

8. INCOME TAXES

The provision for income taxes consists of:

| | 1980 | 1979 |
|----------|--------------------|-------------------|
| Current | | \$ (682,000) |
| Deferred | \$1,040,000 | 1,535,000 |
| | <u>\$1,040,000</u> | <u>\$ 853,000</u> |

The 1980 provision reflects a reduction of \$55,100 for the 3% inventory allowance (\$44,800 in 1979).

As well, investment tax credits, which have been recorded as a reduction in the cost of fixed asset additions, are available to reduce income taxes payable. Since the Company currently does not have taxes payable, these credits are reflected in the balance sheet as a reduction of deferred income taxes and expire as follows:

| | |
|-----------|------------------|
| 1983..... | \$ 75,741 |
| 1984..... | 709,267 |
| 1985..... | 98,434 |
| | <u>\$883,442</u> |

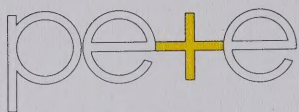
Ten years' review

EARNINGS

| Year | Sales | Provision for Depreciation | Earnings Before Income Taxes | Net Earnings | Net Earnings Per Share | Dividends Per Share |
|------|--------------|----------------------------|------------------------------|--------------|------------------------|---------------------|
| 1971 | \$ 8,461,994 | \$ 504,362 | \$ 834,293 | \$ 422,793 | \$2.35 | \$.97 |
| 1972 | 8,748,533 | 507,528 | 849,639 | 443,639 | 2.44 | 1.12 |
| 1973 | 10,335,867 | 533,012 | 1,026,926 | 587,926 | 3.23 | 1.20 |
| 1974 | 13,953,318 | 642,619 | 1,398,973 | 815,973 | 4.49 | 1.60 |
| 1975 | 14,333,811 | 649,901 | 1,435,793 | 840,793 | 4.62 | 2.00 |
| 1976 | 14,150,930 | 625,006 | 1,284,674 | 745,674 | 4.10 | 2.04 |
| 1977 | 17,385,899 | 745,626 | 1,639,577 | 994,577 | 5.47 | 2.19 |
| 1978 | 18,071,291 | 740,609 | 1,704,954 | 1,022,954 | 5.58 | 2.36 |
| 1979 | 21,112,226 | 795,156 | 2,093,965 | 1,240,965 | 6.51 | 2.65 |
| 1980 | 24,764,749 | 1,453,385 | 2,483,045 | 1,443,045 | 7.57 | 3.10 |

BALANCE SHEET

| Year | Working Capital (Deficiency) | Plant and Equipment at Cost | Plant and Equipment After Depreciation | Term Bank Loans | Shareholders' Equity | Shareholders' Equity Per Share |
|------|------------------------------|-----------------------------|--|-----------------|----------------------|--------------------------------|
| 1971 | \$ (859,653) | \$12,261,782 | \$ 7,131,953 | \$ 920,000 | \$4,060,007 | \$22.33 |
| 1972 | (479,522) | 12,800,280 | 7,172,788 | 1,000,000 | 4,299,974 | 23.65 |
| 1973 | (954,589) | 14,710,330 | 9,042,960 | 1,650,000 | 4,669,680 | 25.68 |
| 1974 | (212,940) | 14,911,097 | 8,631,722 | 1,150,000 | 5,194,693 | 28.57 |
| 1975 | (332,493) | 15,754,564 | 8,837,582 | 650,000 | 5,671,786 | 31.19 |
| 1976 | (201,506) | 16,233,412 | 8,730,234 | 150,000 | 6,046,486 | 33.25 |
| 1977 | 543,750 | 16,608,104 | 8,408,243 | | 6,642,811 | 36.53 |
| 1978 | 16,952 | 19,478,130 | 10,561,098 | 991,410 | 7,535,799 | 39.53 |
| 1979 | 157,850 | 26,950,288 | 17,572,028 | 6,616,272 | 8,271,542 | 43.39 |
| 1980 | (1,127,254) | 30,197,177 | 19,537,686 | 5,462,300 | 9,123,572 | 47.86 |



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